Power Points: ENBL lowers '19, WTR 2Q, AEE equity raise a bit more

Industry Overview

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United States
Electric Utilities

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ENBL posts solid 2Q19 but points to low-end on '19

ENBL reported 2Q19 earnings of $124mn with adjusted EBITDA of $281mn, slightly ahead of expectations. The earnings contribution translates to ~$0.12/sh for CNP's 53.8% ownership and ~$0.12/sh for OGE's 25.5% ownership. Operationally, volumes continued to improve, principally at the natural gas business (90% of mix) with gathering (+4.3% YoY), processing (+9% YoY), and transportation (+14.4% YoY) all up and offsetting the decline in the oil biz. That said, ENBL mgmt. is now pointing to the low-end of guidance for 2019 net income of $435-$505mn as it doesn't expect hedging benefits that occurred in 4Q18 to follow through into 2H. We see this as cautionary for CNP in particular as concerns increase over midstream weakness given the recent decline in energy prices potentially impacting the company's 2019 and LT guidance. We reiterate our Buy rating on CNP, given confidence in mgmt's outlook and as we see a possible inflection on resolution of TX rate case settlement possible by mid-Sept. However, we look for affirmation of '19 guidance on the 2Q call. For OGE, we maintain our Neutral rating as we await potential indication of upside to capex with pending rate case nearly complete.

WTR: Expect Call to Focus on Pending Acquisition

WTR posted 2Q19 adjusted EPS of $0.37 compared to consensus at $0.36, with mgmt. reaffirming its 2019 guidance range of $1.45-$1.50 (excluding impacts related to the Peoples transaction). Management reiterated expectations for an organic rate base growth CAGR of 7% through '21(we still guide to 7.8% inclusive of acquisitions) and the closing of the Peoples transaction in the fall of 2019. The company also highlighted the recently received a letter of intent from the Delaware County Regional Water Control Authority (DELCORA) to exclusive discussions that could result in a combination with Aqua Pennsylvania Wastewater; if this occurs, we would view it as a nice potential tuck-in acquisition in a constructive jurisdiction where mgmt. could expand in the relatively niche wastewater sub-segment. Mgt is hosting a call at 11am ET, and we expect focus to largely center around the pending acquisition of Peoples and the potential to take advantage of the Repairs Tax benefit for the business; will mgmt. opt to spread this benefit thru its forecast period & how much of an initial jump will be realized? With shares valued off '21 & eventually '22 by 4Q, we stress spreading may become less relevant to valuation as longer-term ability to retain some amount of repairs benefits. We perceive upward bias to Street EPS expectations from Repairs Tax Benefit and further re-rating of shares as comfort emerges on the combined outlook; maintain Buy rating.

AEE: Prospectus for share issuance indicates slightly more

Ameren sold 7.549mn shares for $74.30/sh, indicating a total raise of $560.89mn; not all of the amount will be included in the resulting equity dilution for the company. Even so, this suggests more 2020 equity need than we include in our model to help finance the $1.2bn wind program; we model $350mn in '20. We still expect dilution in '20 even though the forward sale could be settled as late as March '21. We see clarity around the equity need as a positive for the company given some may have been anticipating the raise already. However, we reiterate it is offset by the slightly higher raise than some in the Street anticipated (we perceive up to ~$500 Mn had been in expectations). The equity raise also affirms to us mgmt. is unlikely to be more aggressive on its balance sheet; note the MO rate case is pending.

Refer to important disclosures on page 5 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.
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Timestamp: 07 August 2019 06:58AM EDT

Stocks mentioned

BofAML Ticker	Ticker	Company name	Price	Rating
AEE	AEE US	Ameren Corp	US$ 75	A-2-7
WTR	WTR US	Aqua America	US$ 41.15	A-1-7
CNP	CNP US	CenterPoint Energy	US$ 28.86	B-1-7
OGE	OGE US	OGE Energy Corp	US$ 42.49	A-2-7

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Ameren Corporation (AEE)

Our $81 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2021E peer multiple of 19.1x. We apply a 1.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable. We apply a 1.0x premium to peers at AEE Illinois to account for formulaic rates and decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 9% rate base CAGR at IL nat gas through 2023 - and at ATXI, we apply a 1.5x premium to peers even when contemplating the latest potential step down in ROEs. At the Parent, we assume an in line multiple given the healthy debt metrics with FFO/Debt at 19%+. Electric peer P/E multiple is grossed up for a year to 2019 by 5% to reflect capital appreciation across the sector.

The upside (downside) risks to our price objective are the utilities earning their allowed returns or better (worse), a significant increase (decrease) in 30-year U.S. Treasury bond yields, and adverse regulatory outcomes that could affect mgmt's ability to earn its allowed return

Aqua America (WTR)

Our price objective is $45 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. We apply a 1.0x discount to Peoples Gas as we expect earned ROEs to be driven down over time.We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

CenterPoint Energy (CNP)

We value CenterPoint Energy at $31 using a SOTP approach: electric business on 1x premium to the utility multiple on 2021E P/E. We take out any earnings attributable to the transition bonds amortization, as those are temporary and instead add back the DCF value of future payments. For CNP's gas utilities we apply an in-line multiple to the utility gas peer multiple of 21.1x (from 21.2x). Both electric and gas peer P/E multiples are grossed up for a year to 2019 by 5% to reflect capital appreciation across the sector.We integrate Vectren intor our model and apply a 60/40% weighting to the gas/electric multiple. For VISCO/VESCO we apply a 12x P/E multiple, and an 11x P/E multiple for the announced synergies. We subtract parent interest expenses at a weighted average multiple.We value the Energy Services segment we rely on a 12x P/E. We add CNP's interest in ENBL at the market value. We take a 50/50 interest/debt approach, where we net out 50% of interest and 50% of HoldCo debt.

Downside risks: execution risk, decreases in capex which could support or weaken earnings ability, lower authorized returns, interest rate increases, and lower earnings from ENBL.

OGE Energy Corp (OGE)
We value OGE at $45 based on a sum of the parts, separating the utility business from the Enable stake.
For the utility business we apply the peer multiple of 19.2x on 2021E EPS and a 0.5x premium given the improving regulatory environment in OK. Electric peer P/E multiple is grossed up for a year to 2019 by 5% to reflect capital appreciation across the sector.
For the Enable Midstream Partners, LP stake we rely on the current market price of ENBL multiplied by the number of the shares owned by OGE to determine the equity value. We attribute no value to the GP shares, as we don't anticipate IDRs materializing over the next three years.

Downside risks are further declines in the regulatory environment possibly resulting in lower ROEs or other hurdles hindering OGE's ability to earn its authorized return. While not as exposed due to low parent interest, we see interest rate hikes as another potential downside risk. Finally, execution risk on existing capex schedule could put further pressure on earnings growth. Declines in value of ENBL share could also provide downside to our valuation.
Upside risks are shifts towards a more favorable Oklahoma regulatory environment, which could ease OGEs ability to earn its authorized return in the jurisdiction and possibly increase capex plan as management views prospects in the state more positively. Improvements in value of ENBL share could also provide upside to our valuation.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

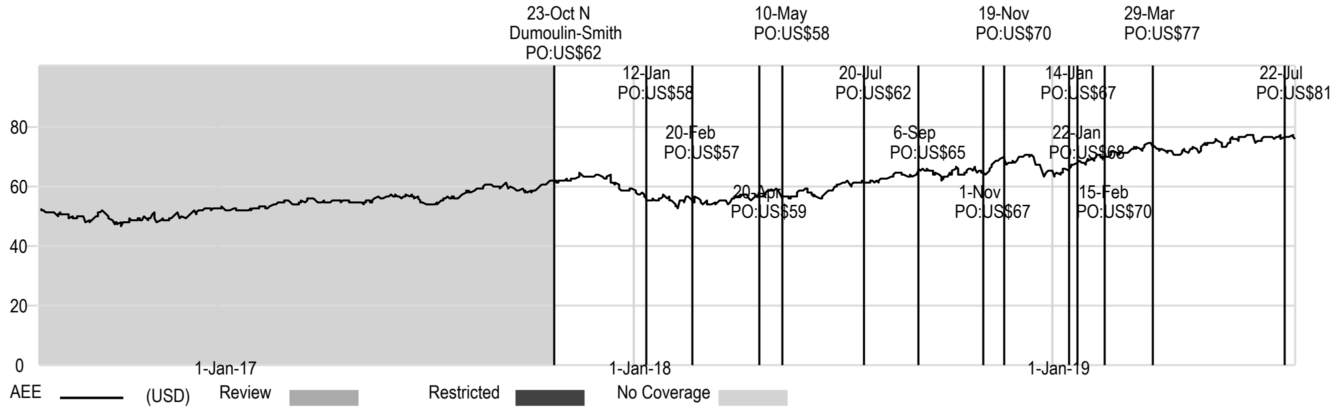
US - Electric Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Aqua America	WTR	WTR US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

AEE Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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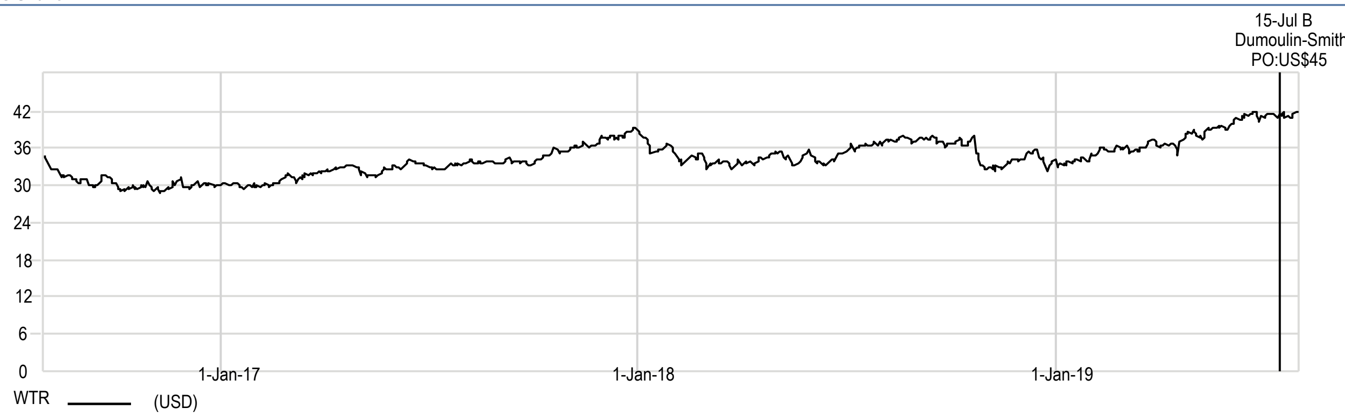
WTR Price Chart



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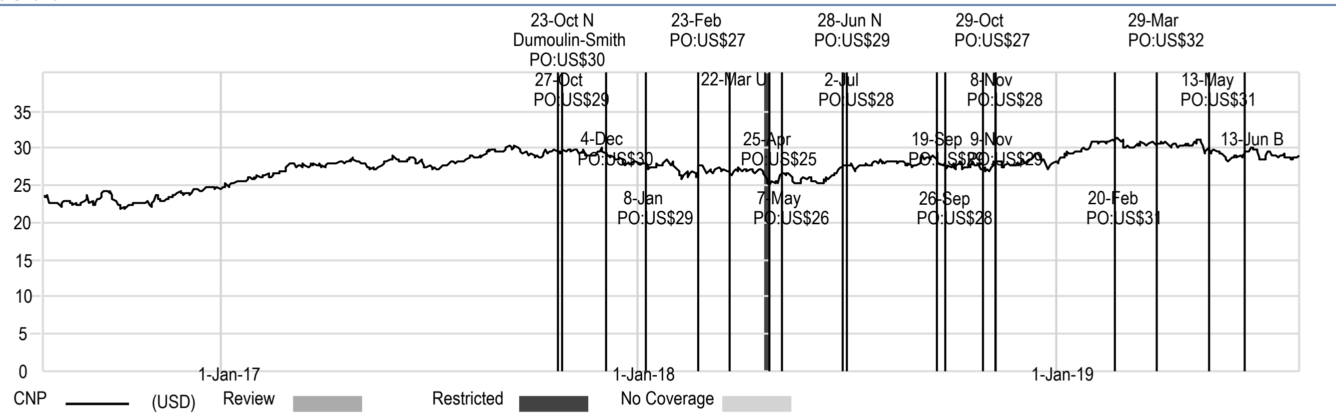
CNP Price Chart



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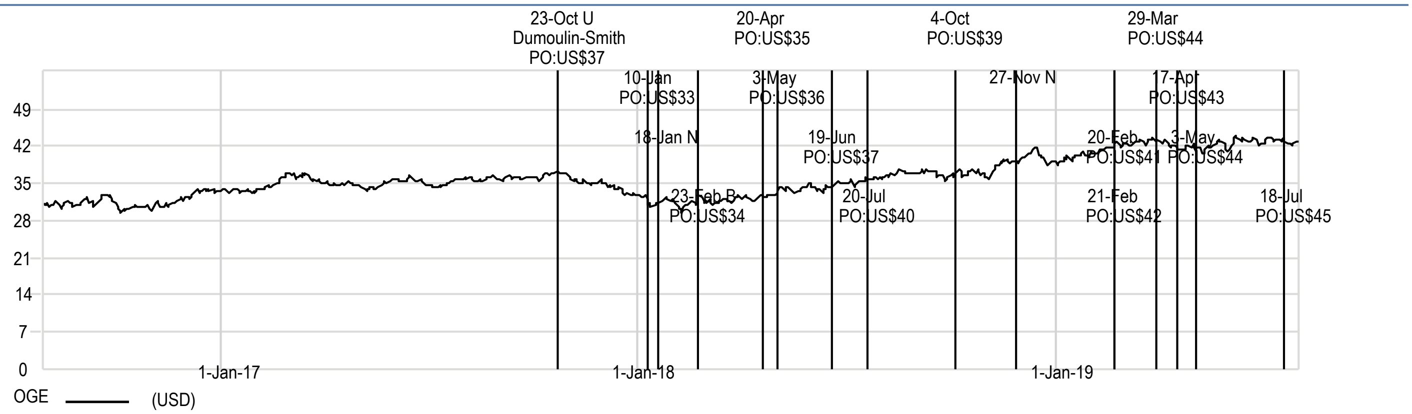
OGE Price Chart



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Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	61	44.20%	Buy	47	77.05%
Hold	42	30.43%	Hold	30	71.43%
Sell	35	25.36%	Sell	27	77.14%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1516	51.23%	Buy	942	62.14%
Hold	687	23.22%	Hold	431	62.74%
Sell	756	25.55%	Sell	380	50.26%

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Underperform	N/A	≥ 20%

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